Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of

Further Notice of Proposed Rulemaking	)	
Interim Reporting Guidelines for FCC	)	CC Docket 96-45
Form 457, Universal Service Worksheet	)	

REPLY COMMENTS OF GTE

Dated: January 25, 1999

GTE Service Corporation and its designated affiliated domestic companies

John F. Raposa

GTE Service Corporation
600 Hidden Ridge, HQE03J27
P.O. Box 152092
Irving, TX 75015-2092
(972) 718-6969

Gail L. Polivy
GTE Service Corporation
1850 M Street, N.W., Suite 1200
Washington, DC 20036
(202) 463-5214

Their Attorneys

TABLE OF CONTENTS

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GTE Service Corporation and its designated affiliated domestic companies[1] (collectively, "GTE") respectfully reply to comments submitted January 11, 1998 in response to the Further Notice of Proposed Rule Making ("Notice") in the above-captioned proceeding.

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[1] These comments are filed on behalf of GTE's affiliated domestic telephone operating companies, GTE Wireless Incorporated, and GTE Communications Corporation. GTE's domestic telephone operating companies are: GTE Alaska Incorporated, GTE Arkansas Incorporated, GTE California Incorporated, GTE Florida Incorporated, GTE Hawaiian Telephone Company Incorporated, The Micronesian Telecommunications Corporation, GTE Midwest Incorporated, GTE North Incorporated, GTE Northwest Incorporated, GTE South Incorporated, GTE Southwest Incorporated, Contel of Minnesota, Inc., and Contel of the South, Inc. GTE offers these Comments without prejudice its positions set forth with respect to the pending petitions for review of the Commission's universal service order. *Texas Office of Public Utility Counsel v. F.C.C.*, No. 97-60421 (5th Cir.).

I. INTRODUCTION AND SUMMARY.

GTE urges the Commission to adopt a funding base for its federal universal service mechanisms of total retail telecommunications revenues, including revenues for intrastate, interstate, and international services. This approach is more efficient, because it provides the largest possible base for universal service contributions. It would also render moot the difficult problem of separating revenues by jurisdiction, with which the Commission is struggling in the Notice.

If the Commission nonetheless decides to use a universal service funding base of interstate revenues only, then GTE would support the adoption of a "safe harbor" percentage. GTE recommends that, for CMRS providers, this should be based on the weighted mean of the jurisdictional reports submitted by CMRS providers today. This would yield a "safe harbor " percentage of about eight percent, instead of the fifteeen percent proposed in the Notice. A carrier wishing to file a number different from the "safe harbor" percentage should have the option of doing so, without the need for a waiver, but should be prepared to file supporting documentation on request.

The Commission should not adopt a flat rate recovery method solely for wireless carriers, because different assessment methods for different classes of carriers would not be competitively neutral. If the Commission wishes to consider a flat rate method of assessment for all carriers, then it must address the three concerns raised by GTE in its Comments.

The Commission should adopt a reasonable minimum amount of usage that it wishes customers to be able to purchase at an affordable rate. This amount should be greater than zero, but less than the current average usage of wireline customers. The Commission should not require that this usage be included in the monthly subscription

fee, since that would interfere with carriers' price structures without providing any meaningful protection for consumers. Instead, the Commission should require that each Eltel, as a condition for receiving federal funds, must offer at least one service that:

1) Meets the definition of basic local service; and
2) Can be purchased for an amount not greater than the affordable price established by the state commission, including any usage charges.

If an Eltel offers at least one such service throughout its service area,then any other service that also includes the basic service functions should also be supported, in order to avoid price distortions between the most basic package and more advanced service offerings

The Commission should allow carriers to claim universal service funding without waiting through a full annual filing cycle. For the new nonrural fund, this can best be achieved by administering the fund on a "real-time" basis, rather than relying on carrier reporting from prior periods. For the rural fund, carriers should have the option of updating their line counts quarterly, but ILECs should not be required to update their costs.

II. THE COMMISSION SHOULD BASE CONTRIBUTIONS TO FEDERAL UNIVERSAL SERVICE MECHANISMS ON CARRIERS' TOTAL RETAIL TELECOMMUNICATIONS REVENUES.

The Notice proposes alternative methods to be used by wireless carriers to report the proportion of their revenue that is interstate in nature, and therefore part of the funding base for certain federal universal service mechanisms. GTE agrees with AT&T that the Commission should instead adopt the recent recommendation of the

Joint Board that the funding base for all federal universal service mechanisms should be combined intrastate, interstate, and international retail telecommunications revenues. As AT&T correctly points out, "This simple approach presents the most efficient solution to the problems inherent in establishing two distinct jurisdictional assessment bases – without the need for a data-intensive fact-finding process or the imposition of additional regulatory burdens on wireless providers."[2] GTE urges the Commission to adopt a base of combined retail revenues, first because it is economically the most sound approach, but also because it renders moot the very real measurement issues with which the Commission is grappling in its Notice.

III. IF THE COMMISSION CONTINUES TO USE A BASE OF INTERSTATE REVENUES, THEN IT SHOULD ESTABLISH A "SAFE HARBOR" PERCENTAGE FOR WIRELESS CARRIERS.

A. There Is A Broad Consensus That The Commission Should Adopt A "Safe Harbor" Percentage For Wireless Carriers.

If the Commission decides to continue to base contributions to some federal mechanisms on a base of interstate revenues, then there is broad consensus among the commenters that the Commission should adopt a "safe harbor" percentage for wireless carriers.[3] This would reduce the resources wireless carriers would have to devote to measurement, limit the variation in the percentages reported to the

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[2] AT&T at 2-3. *See also* BellSouth at 3: "If the Commission adopted such a contribution factor, a carrier would not need to be able to distinguish its revenues on a jurisdictional basis. Accordingly, there would be absolutely no need for the Commission to act at all in this proceeding." RTC at 2: "Changing the contribution mechanism to a total revenue base would eliminate the difficult issues discussed in the FNPRM and treat all carriers, both contributors and recipients in a competitively neutral manner."

[3] AT&T at 3; SBC at 3; Sprint at 4; Omnipoint at 4.

Commission, and address to some extent the Commission's concerns over incentives for misreporting.

GTE also agrees with the majority of commenters that wireless carriers should have the option of either reporting the "safe harbor" percentage or filing an alternative percentage that the carrier believes, on the basis of its own measurement, better reflects the jurisdictional nature of its revenues.[4] While GTE believes that this should not be done simply on a "good faith" basis,[5] GTE does not agree that carriers that choose to file a different percentage should have to seek a waiver for that purpose; this would introduce the burden of an unnecessary process, and its attending uncertainty, on the carriers.[6] Rather, a carrier filing a different percentage should be ready to file supporting information if requested to do so by the Commission. This option would also obviate the need to establish different "safe harbor" percentages for different subsegments of the wireless market.[7]

GTE agrees with Sprint that the Commission should adopt a "safe harbor" percentage for CMRS providers based on the weighted mean of the Form 457 percentages that have been submitted to date.[8] As BellSouth points out, there is no reason why the Commisison should simply assume that the average percentage of interstate revenue for wireless carriers is the same as the average reported percentage

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4 Airtouch at 4; US WEST at 4.

5 Comcast at 5.

6 PCIA at 8.

7 PCIA at 7.

8 Sprint at 5; *see also* CTIA at 8.

of interstate minutes for wireline carriers.[9] The former approach would yield a "safe harbor" percentage of about 8 percent, rather than the 15 percent suggested in the Notice. In the absence of better evidence to the contrary, the Commission should not ignore the data that have been reported by wireless carriers.

B. The Commission Should Not Adopt A Flat Assessment For Wireless Carriers.

The Notice raises the possibility that the Commission might assess a flat rate contribution from wireless carriers. In its Comments, GTE explained that it would not be competitively neutral to adopt a basis for assessment for wireless carriers that is different from the basis used for other telecommunications providers.[10] It might be possible to develop a flat rate recovery mechanism which would apply to *all* carriers, as Commissioner Furchgott-Roth has suggested; GTE listed three important concerns that the Commission would have to address before such an approach could be considered.[11] CTIA also points out that many services are sold on a prepaid basis, so that there is not a identifiable unit of service provided on a monthly basis to which a flat fee could be attached.[12]

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9 BellSouth at 5.

10 GTE at 10. *See also* AT&T at 3, n. 4: "AT&T urges the FCC to impose the same policy upon all service providers, not just wireless providers, to ensure competitive neutrality."

11 GTE at 10-11. These concerns are: 1) the distributional effect on customers; 2) how flat charges would be assessed if more than one carrier serves a given customer; and 3) What unit should be used as the basis for the assessment. GTE is concerned that, since different services are provided in different units, it may not be possible to find a common basis for assessment (other than dollars of revenue) that does not unfairly handicap one service or technology relative to another.

12 CTIA at 9. The same argument would apply to prepaid wireline calling cards.

Comcast recognizes that a flat assessment for wireless carriers, but not for other carriers, could create a problem of competitive neutrality. Comcast suggests that this concern could be addressed by assuring that the flat fees paid by the wireless carriers as a group were set equal to the amount they would have paid on an interstate revenue basis.[13] However, in order to carry out Comcast's suggestion, the Commission would need to determine the wireless carriers' interstate revenues. Comcast's "solution" to the problem of identifying interstate wireless revenue thus assumes that the problem has already been solved. Further, the proposal would still lead to relative price distortions, for customers at different price or volume levels, between wireline and wireless customers; wireless carriers would have a relative advantage in appealing to higher-revenue customers. Finally, Comcast's suggestion does nothing to address any of the three more general questions with respect to flat recovery raised by GTE. Comcast does not explain how its proposal would identify "subscribers", or treats equitably different subscribers who purchase very different service packages. If General Motors purchases a wireless solution for one of its businesses, is it a single "subscriber," and should it contribute the same amount toward universal service as a residence customer who buys a basic local service package from a wireless carrier? As GTE noted in its Comments, the best way to "weight" different customer purchases is on the basis of the number of dollars the customer is willing to pay for each package.

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[13] Comcast at 20-24.

C. Carriers Must Distinguish Telecommunications Revenues From Other Revenues.

GTE agrees with CTIA that wireless carriers must be able to separate their non-telecommunications revenues from the amounts they report to the Commission.[14] This is a concern that applies to all carriers, not just wireless carriers, and that will be present regardless of whether the funding base is interstate revenues or total revenues. GTE submits that this issue should be approached by the Commission with great care, because inaccurate reporting of non-telecom revenues could impair competitive neutrality and artificially limit the funding base for universal service.[15]

Wireless carriers frequently include handsets in their service packages, and so face the need to remove some portion of the revenue that is associated with this equipment. Wireless packages may also include features such as voice messaging.[16] As carriers develop more complex service packages, the problems of separating non-telecom portions of these packages will become more complex. For example, new broadband services may involve the placement of equipment on the customer's premise; these items may be much more difficult to value than wireless handsets, both because they will be complex and because there will be less market experience with them. The status of this equipment will also depend on whether it is counted as part of

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[14] CTIA at 8. *See also* Comcast at 34.

[15] See, for example, Comcast at 12, n. 27: "This creates an additional potential for competitive inequity among competing CMRS providers, as well as between CMRS and non-CMRS contributors..."

[16] CTIA suggests (at 8) that call waiting should be counted as a non-telecommunications service. However, such features, when included in CLASS offerings by ILECs, are considered telecommunications services.

the carrier's network (as network interfaces are today) or as customer premise equipment (as handsets are today.)

The Commission's *Computer III* rules further complicate this matter. As Comcast notes, carriers often bundle telecommunications with information services.[17] This gives rise to the "hybrid" service problem with which the Commission wrestled in its Report to Congress.[18] Under the Commission's "contamination" approach, the inclusion of any information would make the entire package an information service, not a telecommunications service. GTE does not believe that this policy provides a sound basis for the future, because competing services and technologies are not treated on a consistent or competitively neutral basis.

GTE submits that the Commission must examine with care the methods carriers may use to separate non-telecommunications revenues, since the same kinds of incentive problems recognized in the Notice are present here. Comcast suggests that carriers should deduct the fair market value of bundled non-telecommunications services from applicable service plan revenues.[19] GTE is concerned that the "fair value" of stand-alone features may be difficult to ascertain, and, even if available, carriers will tend to overestimate the proportion of the bundled revenue attributable to the non-telecommunications items. Such an approach to valuation would be distorted by different pricing policies carriers might pursue with respect to bundled offerings, as compared to stand-alone features. If, for example, one wished to determine what

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17 Comcast at 34.

18 FCC 98-67 (rel. April 10, 1998).

19 *Id.*

proportion of the value of an automobile was attributable to its engine, one might add up the stand-alone "fair value" of the parts that comprise the engine, and then subtract that sum from the price of the car. Given the way automobile manufacturers price their replacement parts, the "fair value" of the engine, determined in this way, would probably exceed the price of the entire car; the estimated "value" of all the other parts would thus be negative. A more reasonable approach would be to compare the relative input costs associated with the different components of the service.[20]

IV. ELIGIBLE CARRIERS SHOULD OFFER AN AFFORDABLE BASIC PACKAGE THAT INCLUDES A REASONABLE AMOUNT OF USAGE.

A. The Commission Should Choose An Amount Of Usage – Greater Than Zero But Less Than The Current Average – Which Would Represent A Reasonable Minimum That Subscribers Should Be Able To Buy For A Price That Is Affordable.

The Commission has previously determined that it should include some amount of local usage in its definition of the basic local service to be supported. The Notice sought comment on what amount should be included, and how that usage should be defined. Many commenters responded with extreme positions on either side of this issue. NTCA argues (at 6) that all carriers should be required to offer at least the nationwide average amount of local usage estimated for wireline customers.[21] Sprint, in contrast, suggests (at 7) that a local usage requirement is unnecessary, and that the competitive market should be left to determine what usage customers should receive.

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[20] In order to value the CPE portion of its bundled wireless packages, GTE deducts its net equipment cost from the service revenue.

[21] See also SBC at 7. The Ohio Consumers' Counsel (at 6), goes even farther, suggesting that the minimum requirement should be set one standard deviation above the mean of the currently observed distribution of wireline calling.

GTE believes that neither of these extremes is reasonable. GTE also suggests that the issue of the definition of basic local service is inextricably tied to the issue of the conditions eligible telecommunications carriers ("Eltels") must meet in order to ensure that universal service funding is used in a manner consistent with Section 254 of the 1996 Act.[22]

GTE agrees with NCTA that the universal service objectives of the Communications Act will not be realized if consumers' access is provided by carriers with usage rates so high as to make service unaffordable, or rates not comparable.[23] GTE also agrees with the many commenters who argued that, in order to ensure competitive neutrality, the minimum requirement with respect to usage should be the same for all carriers; the Commission should not attempt to establish different "handicaps" for different carriers or technologies.[24] Instead, the Commission should select a single standard which reflects the Commission's judgement about the minimum service package customers should have in order to carry out the universal service objectives of the 1996 Act. GTE believes that, if crafted with some care, a single

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22 The Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (Feb. 8, 1996), *codified beginning at* 47 U.S.C. § 153. All references to the "Act" are to the Communications Act of 1934, as amended by the 1996 Act.

23 NTCA at 5. The Notice makes the same point at &50.

24 *See, e.g.*, SBC at 7, TDS at 8.

standard can be flexible enough so that carriers using different technologies can reasonably compete for support.[25]

Many wireless carriers point out that they would be competitively disadvantaged if they were required to offer, as a minimum call allowance, the mean usage level of today's wireline customers.[26] GTE agrees that this is a more stringent requirement than is necessary to assure subscribers a reasonable minimum level of usage.[27] In many states, the current wireline measured service offerings would not meet this requirement, if the usage standard is couched in terms of a minimum usage allowance to be included in the monthly subscription fee. GTE also agrees that, to the extent possible, carriers should be able to offer different service packages with different combinations of usage and other features, and customers with different needs should be free to choose from these options as they wish.

It does not follow from this, however, that the usage requirement should be set at zero, as many wireless carriers have suggested. First, this approach is not, on its face, competitively neutral. In most places, ILECs are required by their state regulators to

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[25] While GTE agrees that a reasonable balance should be struck to avoid unnecessarily precluding any class of carrier from competing, the Commission is not obligated to ensure that every carrier will succeed as a provider of universal service. The ultimate objective of the universal service program is to ensure the availability of basic service at affordable and comparable rates, and this goal should not be compromised in order to guarantee success for a particular carrier or technology. GTE believes that a balanced approach can be found which does not competitively disadvantage either wireless or wireline carriers.

[26] *E.g.*, CTIA at 15.

[27] GTE disagrees with NTCA, which suggests (at 6) that the minimum usage level should also be the usage level employed as an input in the Commission's cost model. The usage requirement is a *minimum*, while the cost model should include an amount of usage that is *representative*, which would be the mean usage level.

offer flat rate services with unlimited calling. Thus, if the FCC's usage requirement were zero, carriers would be receiving the same support for providing very different levels of usage.[28]

Some parties suggest that the market alone should be left to determine the service customers receive, and that this approach will ensure both that the program is competitively neutral and that universal service objectives are met. Sprint, for example, argues (at 7) that "if consumers have a choice in their provider, there is no reason for the government to establish a minimum usage requirement for eligibility to receive universal service funding." Sprint regards such a requirement as unnecessary regulation of new entrants.[29] While GTE agrees that unnecessary regulation should be minimized, and that a universal service program should be minimally distorting, Sprint's arguments are simply incorrect.

First, any universal service program is, in essence, an intervention in the market. If competing carriers, left to themselves, would provide service in a way that fully meets universal service policy goals, then no basic service definition would be needed at all, nor would the Commission have to provide any universal service support. It is precisely because Congress did not believe that this would occur that it instructed the

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28 As the Notice itself observes (at ¶ 47), wireline service has a relatively high fixed cost per subscriber, and relatively low usage costs, while the cost characteristics for wireless are just the reverse: the fixed per-subscriber costs are low, while usage costs are relatively high. If the usage requirement is zero, the ILEC will have to provide the expensive portion of its service (the loop) in order to qualify, while the wireless carrier need only provide the cheap portion of its service (the account) to qualify for the same support.

29 Sprint at 10. *See also* Airtouch at 12.

Commission to define universal service, and to provide support as needed to achieve the defined policy goal. The subsidy is the compensation a carrier receives for doing something it would not otherwise have chosen to do. It is not particularly helpful, therefore, for carriers to argue that the subsidy should be provided, but the definition of the service should be left to the carriers. The Commission should decide what level of basic local service is needed to meet the objectives of the 1996 Act, as it is required to do by Section 254.

Second, wireless carriers argue that the presence of the ILEC in each market, offering service at affordable rate, will discipline the prices that any entrant can charge, thus obviating the need for a usage requirement in the FCC's basic service definition. Sprint, for example, suggests (at 8) that "[i]f the carrier later attempts to increase its prices for the package, consumers will simply switch to another carrier." This assertion is simply not correct. As these parties themselves point out, customers in each area are heterogeneous, demanding different combinations of service. The presence of a basic service offering by the ILEC cannot discipline all service packages that an entrant might offer. On the contrary, the entrant can use the design of its service packages to target particular groups of customers – those it wishes to serve – while avoiding those customers it would prefer not to serve. While this may be good business strategy for the carrier, it does not assure that the carrier's offerings meet the Commission's universal service goals, and a plan that allows "cherry-picking" of this kind will certainly not be competitively neutral. Airtouch points out (at 11) that "(c)ustomers who find the new service option less attractive than that of the original ILEC price structure will simply retain their existing arrangements." This is precisely the problem: the customers

Airtouch does not choose to target with its offerings – presumably the less attractive customers – will be left to the ILEC to serve.

Further, it is not reasonable for the Commission to adopt a definition of basic local service which depends for its effectiveness, in turn, on the state regulation of ILECs. For years, universal service policy has been intertwined with the regulation of a single carrier. The intent of the 1996 Act was to ensure that universal service policy would continue to be effective in a competitive market. As the market changes, states may modify or even remove their regulation of ILECs, but the national policy toward universal service will remain. The Commission should adopt a definition of basic local service that ensures the availability of universal service independently, regardless of the level of competition, or the degree of regulation, in a given state.[30]

For all of these reasons, it will not be sufficient – or competitively neutral – for the Commission simply to rely on carriers' decisions in the marketplace to ensure that customers have access to a reasonable amount of usage. Instead, the Commission should choose an amount of usage – greater than zero but less than the current average – which would represent a reasonable minimum that subscribers should be able to buy for a price that is affordable.

B. The Local Usage Requirement Should Focus On The Affordability Of The Package, Not On The Rate Structure.

While GTE is concerned that the local service definition should include some reasonable minimum amount of local usage, GTE agrees with parties who express

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[30] Even today, a few states do not require the ILEC to offer flat rate service. Leaving the amount of local usage to be handled by the states as a regulatory matter is also not reasonable because states lack authority to regulate wireless rates.

concern that such a requirement should not unreasonably interfere with carriers' ability to establish different rate structures for their services. The Ohio Consumers' Counsel correctly recognizes (at 5) that carriers need not be required to offer flat-rate service as a condition for receiving support:

> "...the Commission should set a minimum level of usage that, when provided with access at a combined affordable rate, should be supported... From the customer's viewpoint, it is the usage package that should be supported, however the LEC bills for it. A strict measured regime, or a strict per-call structure, is equally deserving of support if the net effect is an affordable package that includes at least the threshold level of usage."[31]

This is essentially the same approach proposed by GTE in its Comments.[32] The key to this approach is to link the basic service definition to the affordability determination made by the state Commission. The Commission should establish the minimum level of usage in its service definition. Each Eltel should then be required, as a condition for the receipt of funds, to offer at least one service package that:

- Meets the FCC's definition of basic local service; and
- Is offered at a price no higher than the rate found by the state commission to be "affordable." For this purpose, the Commission would include any charges the customer must pay to obtain the package with the required minimum usage level, including whatever usage charges the carrier might assess.

This approach will ensure that every subscriber has the "realistic option" of service from any supported carrier – service that includes the minimum amount of usage, and that is also affordable. At the same time, if the minimum amount chosen by

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[31] Ohio Consumers' Counsel at 5.

[32] GTE at 16.

the Commission is reasonable, this approach will be competitively neutral.[33] Carriers will be able to meet the requirement through a wide variety of different service packages and rate structures that reflect the different cost structures of those carriers, and that may appeal to different customer needs.

While GTE strongly recommends that the Commission adopt this basic requirement, GTE disagrees with SBC and TDS that services which include additional content should be excluded from universal service support.[34] The Commission should not put itself into the role of "phone police" asking carriers to remove useful features or content from their services. Further, as GTE explained in its Comments (at 18-20) limiting support to packages that have no more than the basic functionality would create a significant price distortion in the market, discouraging customers from choosing any package that included more, and discouraging carriers from offering such packages. Universal service support should not create any artificial bias against new services or technologies. For this reason, if an Eltel offers a basic service that meets the conditions outlined above, then any service that carrier offers that includes the basic service requirements should also be supported. GTE shares the concerns over "cherry-picking" expressed by TDS and SBC, but believes that the approach outlined here provides a

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[33] Competitive neutrality is threatened when some carriers are allowed to put too little usage in their packages. It is also threatened when some carriers are allowed to bundle too much content – whether usage or anything else – and use that bundling to select only higher-revenue customers. GTE's proposal provides a sufficient safeguard against these harms, yet it still allows carriers wide scope to compete on the basis of different service options and packages.

[34] SBC at 8; TDS at 9.

means for addressing those concerns, without creating new and unnecessary relative price distortions in the market.

C. Local Usage Should Cover The Minimum Area The Eltel Is Required To Serve.

As the Notice recognizes (at ¶ 53), and as several commenters point out, it is difficult to compare the local usage provided by different carriers because the area across which the customer may place local calls varies widely. This is true even for ILECs in different parts of the country; in some places, the local calling area is quite small, but in others it may include an entire state. Similarly, wireless carriers and CLECs offer different service packages with different local calling scopes, including some wireless "one-rate" plans in which the local calling area is the entire country.

It will never be possible, or even desirable, for the Commission to reduce all of these different calling plans to some sort of apples-to-apples comparison. Delegating the issue of calling scopes to the states is not a solution, because states generally do not have regulatory authority over all carriers. As with the amount of usage, GTE recommends that the Commission should deal with the issue of calling scope by establishing a minimum requirement, rather than by trying to equalize what is offered in different packages. And this can best be done by tying the minimum calling scope requirement to something the states do have clear authority over, namely the minimum service area throughout which a carrier must offer service in order to be designated an Eltel.

GTE proposes that the Commission's minimum usage requirement should define local usage as calling within the Eltel's minimum service area, as determined by the state commission. This need not, and in GTE's view should not, mean calling within the

entire area a carrier serves within a state. GTE has consistently advocated the use of small geographic areas for universal service obligations, both to target support better and to avoid unnecessary barriers to entry. Further, GTE's proposal would not preclude a carrier from offering usage over some calling area larger than the minimum area.[35] However, GTE strongly disagrees with proposals that a carrier should be able to establish any local calling area it wishes, without any minimum requirements. This would allow carriers to "gerrymander" their areas for the purpose of targeting their services to selected customer sets.

V. THE ADMINISTRATION OF THE FEDERAL FUND SHOULD BE COMPETITIVELY NEUTRAL.

GTE strongly agrees with Western Wireless that, in order to be competitively neutral, support must be portable among different carriers.[36] This is an overwhelming reason for ensuring that all universal service support is made explicit. As Western Wireless correctly argues, the existing system of implicit support poses a barrier to entry.[37] Support that is implicit cannot be made portable to another carrier. For this reason, support cannot be competitively neutral unless all of the support is explicit.

While GTE agrees with Western Wireless that support should be portable, GTE strongly urges the Commission not to attempt, as an interim measure, to make implicit

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[35] Wireless carriers often have several packages with different calling areas, some of which may be much larger than the typical ILEC local area. Similarly, ILECs often offer different packages of extended local calling.

[36] That is, support should be portable from one Eltel that meets the conditions for support to another such Eltel. There may be carriers operating in the same area who do not meet these requirements, and to whom support would not be portable.

[37] Western Wireless at 5.

support available to new entrants. Simply stated, there is no workable, or competitively neutral method for doing this. Even if such support could be made available to Western Wireless in some form, it would not be competitively neutral to allow Western Wireless to receive explicit funding in the same market where the ILEC must generate implicit support through its own rates. The only way to ensure that support is competitively neutral is to ensure that it is both explicit and sufficient. However, GTE does agree with Western Wireless that a good way to evaluate the amount of explicit support that is needed would be to examine the current level of implicit support generated through ILEC rates.

GTE also agrees with Western Wireless (at 12) that carriers should not have to wait a year or more in order to obtain support. In its Comments, GTE proposed a method for adjusting the administration of the federal funds which would address Western Wireless' concerns.[38] However, the Commission should not modify its rules in such a way as to require ILECs to submit their costs more often than annually, if they do not choose to do so. The rules should also not allow the per-line support amount in each area to be recalculated within the year on the basis of new line counts submitted on a quarterly basis by new carriers. This could cause the support amount to be misestimated, to the extent that there was a mismatch between the line count in the denominator of the calculation and the ILEC costs in the numerator. Instead, the Commission should establish a per-line amount for the entire year, and then pay that

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[38] GTE at 20-22.

amount for each line carriers may report, including those reported in optional quarterly reports.

GTE also shares the concern of TDS that the Commission cannot simply assume, as the current rules would do, that each line reported by a CLEC must be a line lost by the ILEC in that area.[39] The Commission has no way of telling, from a CLEC's line count report, whether a given CLEC line represents new demand or existing demand captured from the ILEC.[40] If the Commission does not require all carriers to report lines at the same time, then it must accept the possibility that some lines may be double counted. However, this would only be temporary, and would be corrected in the next year's annual filing. In any event, the Commission cannot treat the total amount of support as a fixed amount in a given area, since the total number of lines may change, and there is no reason to assume that there would be any offsetting change in unit cost.

Finally, GTE disagrees with the proposal of Western Wireless that universal service costs be based on a combination of wireline and wireless cost estimates. The simple fact is that almost all local customers are served by wireline technology today; if this were a competitive market, the price signal any entrant – including a wireless carrier — would face would be a price based on wireline costs. The wireless carrier would decide whether or not to enter, based on whether its costs were competitive with that

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[39] TDS at 6.

[40] For that matter, once competition is under way, it is quite possible that one CLEC might capture demand from another CLEC.

price. This is also the price the Commission should seek to replicate with its cost model.

In some areas – perhaps in may areas – wireless technology may prove more cost-effective in the future. However, the Commission should not put itself in the position of making these technology choices. Instead, the market should decide when and where wireless technology is useful, based on a comparison with a price that is representative of the current technology. The Commission's job should thus be to send the most accurate price signal – the one that best represents the current wireline costs. This will allow the market to make much better choices concerning the adoption of any new technology – wireless or otherwise. If the Commission prematurely assumes a new technology – based on cost estimates which are speculative at best – it may have the effect of preempting, rather than promoting, the adoption of the most efficient technology. Indeed, the resulting support amount may be insufficient for any technology. GTE submits that the framework of competitive bidding proposed by GTE would provide an effective method for reflecting changes in cost levels over time attributable to any new technology the bidders may see fit to adopt.

VI. CONCLUSION.

For the reasons stated above, and those set forth in GTE's Comments, the Commission should adopt both interstate and intrastate revenues as the funding base for universal service mechanisms. However, in the event this proposal is not adopted by the Commission, GTE believes that use of an industry standard "safe harbor" percentage brings a degree of uniformity to the process of reporting interstate revenues for those carriers who have difficulty distinguishing between interstate and intrastate revenues. Carriers should have the option of filing percentages that differ from the

"safe harbor" guidelines, but should be prepared to provide supporting information on request.

In order to ensure that customers have the "realistic option" of service from each supported carrier, and to ensure that its universal service mechanisms are competitively neutral, the Commission should adopt a minimum amount of usage to be made available at an affordable price. In order to receive funds, a carrier should make available a package that allows the subscriber to buy the package – and the minimum usage amount – at a price no higher than the level found "affordable" by the state Commission.

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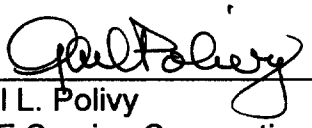
Respectfully submitted,

GTE Service Corporation and its affiliated domestic telephone operating companies

John F. Raposa
GTE Service Corporation
600 Hidden Ridge, HQE03J27
P.O. Box 152092
Irving, TX 75015-2092
(972) 718-6969

By 

Gail L. Polivy
GTE Service Corporation
1850 M Street, N.W., Suite 1200
Washington, DC 20036
(202) 463-5214

Their Attorneys

CERTIFICATE OF SERVICE

I, Judy R. Quinlan, hereby certify that copies of the foregoing "Reply Comments of GTE" have been mailed by first class United States mail, postage prepaid, on January 25, 1999 to all parties of record.

Judy R. Quinlan